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MEMORANDUM

October 24, 1962

TO: The Vice President

FROM: HB

SUBJECT: Southwest Oil and the Cuban Crisis

The Cuban developments permit -- and even demand -- Administration action relative to U. S. oil readiness. If initiated within the next ten days, such actions could have constructive residual benefits, e.g., political (in California, Pennsylvania, Texas, Colorado, etc.), on support of the 1963-64 tax program, on the Administration's Middle East policies, etc.

I.

Cuba requires a review -- and, perhaps, a considerable reassessment -- of our national strategy in relation to oil. The elementary factors involved are these:

1. The Cuban developments carry the potential of a very rapid escalation of demand for U. S. petroleum, both crude and refined. Proximity of the Cuban threat to the continental United States, east of the Rockies, specifically increases the demand for a substantial margin of safety in our above graund, ready-to-use supplies.

2. If there is no escalation to armed conflict, the nature of military activity required by present policy -- e.g., intensified sea duty for the fleet, intensified air alert, intensified movement of ground forces, etc. -- will accelerate consumption of petroleum products beyond previous cold war standards.

3. The proximity factor also necessitates adequate provision of above-ground products to supply conceivable civilian necessities.

4. Missiles presently operational in Cuba expose to attack oil fields -- in Texas, Louisiana, Oklahoma, New Mexico, Kansas, Colorado, Arkansas, Mississippi, etc. -- representing consiBerably more than 50 percent of our domestic petroleum reserves and domestic production capacity.

5. The same missile strike capacity exposes an even greater percentage of the refining capacity serving the industrial North and East of the U. S.

6. Also, the gathering systems for 90 percent of the interstate natural gas pipe lines which supply major metropolitan areas are exposed, making it feasible for the enemy to eliminate at the source natural gas required for both residential and industrial use by more than 75 percent of the nation's natural gas utility customers.

Until medium range missiles become operational in Cuba, the U. S. petroleum industry is -- of all basic U. S. industries -- presently subject to the greatest degree of exposure: i.e., the oil industry's operational effectiveness is nearest to being 100 percent vulnerable to enemy action.

II.

National security requires immediate intensive attention to these implications. The value of importing oil, as a safety factory is considerably diminished because the site of possible naval actions -- under present policy -- straddles the principal sea lanes from both Latin America and the Middle East. As a matter of urgent prudence, the United States must act with dispatch -- and risk erring on the side of excess supplies -- to assure petroleum adequacy domestically.

III.

On this basis, therefore, it is suggested that certain actions described below would represent manifestations of prudence and responsibility:

1. <u>Summon to the White House the Chairman of the Texas Railroad Commission</u>.

This, of course, follows Roosevelt's pre-World War II pattern. There are several reasons why direct consultations between the President and the Chairman of the Texas Railroad Commission would be of greatest benefit to the Administration. The Chairman of that Commission is the public official in the United States with the greatest direct power over the supply of domestically produced oil. A conference with a public official signifies to all segments of the industry responsible Administration action while, at the same time, avoiding intra-industry concern over recognition or non-recognition of competitive industry segments. The Interstate Oil Compact represents more states, of course, but it is powerless, Its chairmanship is political, and conferences with Compact officials would be least constructive either as a symbol or as a transmission belt to the oil industry or to business in general.

Any such discussions between the President and the Texas Railroad Commission Chairman should center on (1) adequacy of above ground stocks, (2) adequacy of production levels relative to the dimensions of possible national needs and (3) security measures to assure maintenance of operations in the event of hostile attack. <u>It would seem likely that any such conferences could result in the Texas Chairman announcing the likelihood that the Commission would have to increase the number of producing days for Texas oil fields in the national interest</u>. The residual benefits of such an announcement, if made prior to November 3, are obvious.

2. <u>Call a White House Conference of Major Refining and Marketing Company Executives</u>.

Since the refining capacity of the nation, owned by private companies, is exposed to enemy action, a conference at the White House would be desirable from many standpoints -- not least of which would be the benefit in communicating to the public and especially to the business community generally the Administration's sense of urgency and its instinct for responsibility of the highest order.

3. Consider Appointment by Executive Order of an Oil "Czar."

The present structure of the Federal Government relative to oil and gas has no focus comparable to that which World War II proved necessary. There is an Assistant Secretary of Interior, an Oil Imports Administrator, the Federal Power Commission, the U. S. Bureau of Mines, etc. The industry will not respond either to this structure or to personalities presently occupying the key positions. One individual, operating under delegation of Presidential authority, could accomplish much in establishing greater harmony between the Administration and the industry and also permit the Administration to dispose of many presently troublesome problems in this field.

4. Consider Comparable Actions Relative to Coal.

To a limited -- but much less urgent -- extent, what is suggested here for petroleum is needed also in relation to coal. Between 1940 and 1962, petroleum and coal have reversed positions in importance as suppliers of U. S. energy requirements. Quite likely, coal can benefit -- and the economies of the coal-producing states can benefit -- by prudent federal decisions to increase the above-ground reserves of coal during this period of emergency. This should be explored. However, more is to be lost than gained by intermingling the oil industry and the coal industry in conferences with the Administration. Each should be kept separate, even if treated equally.

IV.

As a purely practical matter, the present Cuban crisis makes irrelevant further discussion of changes in the present oil import program, at least insofar as reducing quotas is concerned. Assurances made privately of such an attitude by the Administration would probably serve constructive ends. At the same time, however, there is one element of the import program which may specifically deserve review in light of the Cuban development: i.e., the status of the so-called inland refineries.

At present, a substantial percentage of U. S. refinery capacity is going unused because refinery owners are selling their import quotas to major refineries and are maintaining only the most necessary minimum refinery operations at their own small installations. The implication of this to national security is adverse. U. S. refining operations are centralized and concentrated in a very limited number of refineries. The dispersal which is possible is not being utilized because of an unintended economic incentive for non-use of the small inland refineries. This, of course, is one of the most vexing aspects of the Eisenhower import program which this Administration has continued unchanged. If desired, the present Cuban situation probably permits a change in the program aimed at a "use it or lose it" policy for the small refineries. If such refineries were required to refine the oil imported under their quotas, it would mean an increase in employment in many communities as well as getting the Administration past a problem which has the potential of becoming some day a national scandal.

A change of this kind cannot be accomplished precipitately. However, there is considerable political dynamite involved in the present program, if any sort of national petroleum shortage should materialize. Too many independent refiners are showing profits under the imports program when their refinery facilities are not even in use. This could be bad for everybody if our stock of refined products proves to be inadequate at anytime during the next several months.